Auckland Council Group Interim Report

31 December 2017

Auckland Council
Te Kaunihera o Tāmaki Makaurau

Contents

Message from the mayor

Auckland is growing at an unprecedented rate. Within the next decade we will increase in population to over 2 million people. However, the growth we enjoy also presents challenges with pressure put on our level of traffic congestion, the shortage and affordability of housing and the impact on our environment.

Critical issues of investment in transport, housing and environmental infrastructure are being addressed in our current ten year budget which is being consulted on through March this year.

Meanwhile, in our last annual budget, we addressed these challenges while introducing new forms of funding such as the accommodation provider targeted rate and implementing a living wage at Council to ensure our people have a fair wage that can support them and their families to meet the costs of living in Auckland.

Total capital investment budget of $2 billion this year is focused on accelerating investment in our transport network, in particular public and active transport and optimising the existing network to address traffic congestion.

We have approved the purchase of 15 new electric trains to service our rail network through to Pukekohe and improve the frequency and efficiency of services across the region. Construction continues on the $3.4 billion City Rail Link and further investment of in our bus network and cycle and walkways offers residents and visitors more and better ways to move about our region while helping decongest our road network.

Collaboration with Government is crucial to address Auckland's housing issues. In the first half of this financial year, with the former Government, we announced the agreed and potential new funding initiatives of $887 million through the Housing Infrastructure Fund (HIF) and Crown Infrastructure Partners (CIP) (a partnership investment model) that has the potential to deliver 33,800 new homes in Auckland's south, north and west.

Through the Mayoral Housing Taskforce we continue to work with industry and government to explore solutions to address supply-side constraints in the housing market such as high construction costs, labour and skills shortages and increased flexibility to current legislation.

Auckland's size and rate of growth have put enormous pressure on funding. Council continues to work to diversify its funding sources and prioritise investment in infrastructure and critical services. We must also provide and show greater value for money to Auckland's ratepayers.

The positive operating result in line with budget is an improvement on the comparative six month period. It is evidence of an organisation operating in a more cost effective and efficient manner and reaffirmed by our credit ratings of AA (Standard & Poor's) and Aa2 (Moody's).

The Value for Money reviews I launched in the previous financial year have already identified potential savings of $350 million over the next ten years across four council departments. I expect council to realise the savings identified in those reviews and in subsequent reviews that are underway.

Phil Goff
Mayor of Auckland
28 February 2018

Message from the chief executive

Auckland continues to change and grow, putting increased demands on the infrastructure requirements within the Auckland region, as well as council's services and resources. We are focused on getting the right balance to be able to deliver our infrastructure, as well as keeping rates at a manageable level.

We are, therefore, pleased to report that the council group is able to return a positive operating result, in line with budget, as well as an improved overall performance.

Key focuses for Auckland remain those which are related to the continued growth of the city and its infrastructure. During the six month period to 31 December 2017, the Group invested $760 million to expand and renew community and infrastructure assets: transport, travel demand management and traffic congestion; roads and footpaths; water and wastewater projects; housing availability; and parks and community facilities. As a result, total net Group assets increased by $989 million.

The half-year financial report continues to reflect Auckland's effectiveness in balancing our investment with the pressure of sustained population growth and demand for council's services and resources.

Within this six month period, our credit ratings of AA (stable) from Standard and Poor's and Aa2 from Moody's Investor Services were reaffirmed in October 2017, in part due to council's continued ability to diversify our funding sources. Auckland Council's credit ratings continue to be among the strongest in New Zealand.

Key achievements over the period of the report include:

- Sustained significant investment in public transport, essential for the continued success of our city. 2017 saw us reach 20 million train trips and 90 million trips on public transport. 15 new electric trains are also in the pipeline to lift the standard of transport and encourage further use of our transport infrastructure.
- Excellent ongoing progress on the City Rail Link. One of our major investment projects which will enable an additional 30,000 people to move around in peak times, we are pleased with the excellent progress of this essential link.
- The city is also delivering on cultural activities and recreational activities which help to build Auckland's reputation as the leading arts destination in the Pacific, serving to enrich the lives of Aucklanders, to attract a greater number of visitors to Auckland and to boost our economy:

    - Courtesy of Auckland Art Gallery, we were able to enjoy the wonderful exhibition of paintings belonging to the Corsini family of Florence featuring Renaissance and Baroque painting by artists such as Botticelli, Andrea del Sarto, Caravaggio and Pontormo.
    - Auckland Arts Festival, previously bi-annual, will now be an annual event. Having a major annual arts event brings a great sense of pride to Aucklanders as they can take part in, and enjoy, these fantastic, vibrant, and creative events that energise our city.

It is important to recognise the long-term nature of the projects and the planning that goes in to deciding how our city develops. We encourage you to have your say too, as we develop our 10-year Budget, to help us to make the best decisions for the future of Auckland.

We also recognise the hard work and commitment of the staff throughout the council Group for their sound advice, strong financial management, as well as working to finding savings in spending to provide better value for money for our ratepayers. Thanks to them, we are able to carry out initiatives and projects that are important to Aucklanders.

Stephen Town
Chief Executive
28 February 2018

Financial commentary

Auckland Council Group (the Group) continues to manage its finances prudently in line with the prior year and with close oversight of operational and capital expenditure. The interim report is unaudited.

Comparison of results for the six months ended 31 December 2017 to the same period last year

The Group generated an operating surplus before gains and losses of $1,053 million for the six months to 31 December 2017, an increase of $87 million or 9% on the same period last year.

Total revenue excluding other gains has increased by $226 million and was largely due to:

- increase in rates of $70 million or 4% which is in line with the annual budget comprising planned rates increases of 2.5% and rating base growth of 1.5%;
- continuous infrastructure growth in Auckland contributing to:
  - higher vested asset revenue of $70 million driven by higher volumes of infrastructure completed;
  - higher development contributions of $13 million;
  - increase in grants and subsidies from central government by $15 million for transport infrastructure growth; and,
  - Watercare's higher infrastructure growth charge by $3.5 million;
- finance charge reimbursed by the central government totalling $14.5 million in relation to Auckland Council initial funding of the City Rail Link; and,
- increase in fees and user charges of $33 million mainly due to patronage growth and continued implementation of the public transport operating contracts, growth in port operations, and increase in prices and volumes for water and wastewater.

The remaining minor favourable difference is made up of small non material variances.

Total expenditure excluding other losses increased by $139 million and was driven by the following:

- additional weathertightness provision of $69 million driven by updates to assumptions and revised cost estimates to meet the repair costs of multi-unit dwelling claims;
- higher operating costs for Auckland Transport of $28 million due to growth and gradual introduction of "Simpler Fares"; and as a result of the continued implementation of the transport operating contracts;
- increase in finance costs by $21 million mainly due to increased debt to finance the capital program;
- higher employee benefits of $17 million for additional staff to support delivery of services and projects, annual salary and living wage increase; and,
- additional rental expense of $3 million attributable to new GridAKL spaces developed to serve as innovation precinct for individuals and businesses.

The remaining minor unfavourable difference is made up of small non material variances.

Net other losses of $104 million were mainly due to lower long-term interest rates resulting in a decrease in the fair value of financial instruments. The Group continues to actively manage its interest rate and foreign exchange exposure to provide certainty over the Group's interest and foreign exchange costs in the medium and long-term.

Comparison to statement of financial position at 30 June 2017

The total Group net assets increased by $989 million from 30 June 2017. The following contributed to the increase:

- movement in receivables of $780 million mainly due to uncollected net rates receivables as a result of recognising upfront the 2017/18 rates at the time of the issuance of the rating notices in July 2017;
- net investment in property, plant and equipment, intangible assets, investment property and investments in associates and joint ventures, principally City Rail Link Limited for the construction of City Rail Link of $489 million; and,

offset by:

- an increase in borrowings, net of cash and cash equivalents, of $277 million.

During the six month period to 31 December 2017, the Group invested $760 million to expand and renew community and infrastructure assets. This was funded by net operating cashflows $638 million and the balance from borrowings.

Statement of comprehensive revenue and expenditure

For the six months ended 31 December 2017

$million	Note	Unaudited 6 months to 31 Dec 2017	Unaudited 6 months to 31 Dec 2016	Audited 12 months to 30 Jun 2017
Revenue				
Rates		1,698	1,628	1,641
Fees and user charges		629	596	1,193
Grants and subsidies		238	223	459
Development and financial contributions		91	78	164
Other revenue		137	128	281
Vested assets		186	116	374
Finance revenue		24	8	17
Total revenue excluding other gains	2	**3,003**	**2,777**	**4,129**
Expenditure				
Employee benefits		433	416	853
Depreciation and amortisation		423	430	874
Grants, contributions and sponsorship		103	97	127
Other operating expenses		759	657	1,464
Finance costs		232	211	471
Total expenditure excluding other losses		**1,950**	**1,811**	**3,789**
Operating surplus before gains and losses		**1,053**	**966**	**340**
Net other gains/(losses)	3	(104)	373	281
Share of surplus in associates and joint ventures		42	32	75
Surplus before income tax		**991**	**1,371**	**696**
Income tax expense		15	35	56
Surplus after income tax		**976**	**1,336**	**640**
Other comprehensive revenue/(expenditure)				
Net gain on revaluation of property, plant and equipment		-	-	1,468
Movement in cash flow hedge reserve		6	6	3
Tax on movement in cash flow hedges		(2)	(1)	-
Share of associates and joint ventures' reserves		1	2	2
Net unrealised gain on revaluation of financial assets classified as available-for-sale		8	4	11
Total other comprehensive revenue		**13**	**11**	**1,484**
Total comprehensive revenue		**989**	**1,347**	**2,124**

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Statement of financial position

As at 31 December 2017

$million	Note	Unaudited as at 31 Dec 2017	Unaudited as at 31 Dec 2016	Audited as at 30 Jun 2017
Assets				
Current assets				
Cash and cash equivalents		774	222	337
Receivables and prepayments	2	1,125	1,045	345
Derivative financial instruments	4	7	1	-
Other financial assets		458	294	276
Inventories		41	35	35
Income tax receivables		-	1	-
Non-current assets held-for-sale		133	85	332
Total current assets		**2,538**	**1,683**	**1,325**
Non-current assets				
Receivables and prepayments	2	9	30	9
Derivative financial instruments	4	272	183	170
Other financial assets		141	131	141
Property, plant and equipment		43,554	41,492	43,361
Intangible assets		526	493	511
Investment property		743	653	735
Investment in associates and joint ventures		1,369	1,083	1,096
Other non-current assets		11	2	11
Total non-current assets		**46,625**	**44,067**	**46,034**
Total assets		**49,163**	**45,750**	**47,359**
Liabilities				
Current liabilities				
Bank overdraft		3	1	6
Payables and accruals		653	602	688
Employee entitlements		98	92	95
Borrowings		1,047	1,546	1,125
Derivative financial instruments	4	6	4	7
Income tax payable		1	-	-
Provisions		108	93	82
Total current liabilities		**1,916**	**2,338**	**2,003**
Non-current liabilities				
Payables and accruals		61	50	49
Employee entitlements		5	5	5
Borrowings		7,970	6,214	7,175
Derivative financial instruments	4	927	782	865
Provisions		390	271	374
Deferred tax liabilities		1,129	1,091	1,112
Total non-current liabilities		**10,482**	**8,413**	**9,580**
Total liabilities		**12,398**	**10,751**	**11,583**
Net assets		**36,765**	**34,999**	**35,776**
Equity				
Contributed equity		26,728	26,728	26,728
Accumulated funds		1,920	1,632	951
Reserves		8,117	6,639	8,097
Total equity		**36,765**	**34,999**	**35,776**

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Statement of changes in equity

For the six months ended 31 December 2017

1 July 2017 to 31 December 2017 Unaudited $million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2017	**26,728**	**951**	**8,097**	**35,776**
Surplus after income tax	-	976	-	**976**
Other comprehensive revenue	-	-	13	**13**
Total comprehensive revenue	**-**	**976**	**13**	**989**
Transfers to/(from) reserves	-	(7)	7	-
Balance as at 31 December 2017	**26,728**	**1,920**	**8,117**	**36,765**

1 July 2016 to 31 December 2016 Unaudited $million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2016	**26,728**	**290**	**6,634**	**33,652**
Surplus after income tax	-	1,336	-	1,336
Other comprehensive revenue	-	-	11	11
Total comprehensive revenue	**-**	**1,336**	**11**	**1,347**
Transfers to/(from) reserves	-	6	(6)	**-**
Balance as at 31 December 2016	**26,728**	**1,632**	**6,639**	**34,999**

1 July 2016 to 30 June 2017 Audited $million	Contributed equity	Accumulated funds	Reserves	Total equity
Balance as at 1 July 2016	**26,728**	**290**	**6,634**	**33,652**
Surplus after income tax	-	640	-	640
Other comprehensive revenue	-	-	1,484	1,484
Total comprehensive revenue	**-**	**640**	**1,484**	**2,124**
Transfers to/(from) reserves	-	21	(21)	**-**
Balance as at 30 June 2017	**26,728**	**951**	**8,097**	**35,776**

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Statement of cash flows

For the six months ended 31 December 2017

$million	Note	Unaudited 6 months to 31 Dec 2017	Unaudited 6 months to 31 Dec 2016	Audited 12 months to 30 Jun 2017
Cash flows from operating activities				
Receipts from customers, rates, grants and other services		1,961	1,764	3,660
Interest received	6	22	7	14
Dividends received		32	26	57
Payments to suppliers and employees		(1,149)	(1,058)	(2,418)
Income tax refund		2	-	1
Interest paid		(230)	(200)	(422)
Net cash inflow from operating activities	11	**638**	**539**	**892**
Cash flows from investing activities				
Sale of property, plant and equipment, investment property and intangible assets		65	42	107
Purchase of property, plant and equipment, investment property and intangible assets		(860)	(762)	(1,620)
Acquisition of other financial assets		(433)	(77)	(154)
Proceeds from sale of other financial assets		257	203	308
Crown reimbursement of City Rail Link stage 1 costs	6	218	-	-
Equity investment in City Rail Link Limited	6	(44)	-	-
Advances from/(to) external parties		(1)	3	(14)
Proceeds from community loan repayments		-	-	6
Net cash outflow from investing activities		**(798)**	**(591)**	**(1,367)**
Cash flows from financing activities				
Proceeds from borrowings		2,484	858	3,919
Repayment of borrowings		(1,911)	(646)	(3,205)
Proceeds from/(payments for) derivative financial instruments		27	(67)	(36)
Net cash inflow from financing activities		**600**	**145**	**678**
Net increase in cash and cash equivalents and bank overdraft		**440**	**93**	**203**
Opening cash and cash equivalents and bank overdraft		331	128	128
Closing cash and cash equivalents and bank overdraft		**771**	**221**	**331**

The accompanying notes to the financial statements form part of, and are to be read in conjunction with, these financial statements.

Notes to the financial statements (unaudited)

1 Statement of significant accounting policies

Reporting entities

Auckland Council (the council) is a local authority domiciled in New Zealand and governed by the Local Government Act 2002, the Local Government (Auckland Council) Act 2009 and the Local Government (Rating) Act 2002. The council is a FMC Reporting Entity under the Financial Market Conducts Act (FMCA) 2013. The council's principal address is 135 Albert Street, Auckland Central, New Zealand.

The Auckland Council Group (the Group) consists of the council, its council-controlled organisations (CCOs), associates and joint arrangements. All entities are domiciled in New Zealand. The substantive CCOs of the group comprise of:

- Auckland Council Investments Limited
- Auckland Tourism, Events and Economic Development Limited
- Auckland Transport
- Panuku Development Auckland Limited
- Regional Facilities Auckland
- Watercare Services Limited

The primary objective of the Group is to provide services and facilities to the Auckland community for social benefit rather than to make a financial return. Accordingly, Auckland Council has designated itself and the Group as public benefit entities (PBEs) and applies New Zealand Tier 1 Public Sector Public Benefit Entity accounting standards (PBE Accounting Standards). These standards are based on International Public Sector Accounting Standards (IPSAS), with amendments for the New Zealand environment.

Statement of compliance

These interim financial statements are for the six months ended 31 December 2017 and have been prepared for the Group only and are to be read in conjunction with the annual report for the year ended 30 June 2017. They are prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with PBE IAS 34 *Interim Financial Reporting*. The financial results for the six month period ended 31 December 2017 are unaudited however they have been subject to a review by the auditors, pursuant to the New Zealand Standard on Review Engagements (NZ SRE) 2410.

Basis of preparation

The interim financial statements have been prepared on a going concern basis and the accounting policies applied are consistent with those used at 30 June 2017.

The interim financial statements are presented in New Zealand dollars (NZD), which is the functional currency of each of the Group's entities, and are rounded to the nearest million dollars, unless otherwise stated. All items in the interim financial statements are stated exclusive of Goods and Services Tax (GST), except for receivables and payables, which include GST invoiced.

The following changes in the classification of the cash flow activities were made to better align with the nature of the underlying cash flows:

- capitalised employee benefits was moved from operating to investing (30 June 2017: $78 million and 31 December 2016: $21 million); and
- proceeds from derivative financial instruments was moved from investing to financing (30 June 2017: net payment of 36 million and 31 December 2016: net payment of $67 million).

Other changes within operating activities have been made which do not impact the net cash inflow from operating activities.

Accounting judgements, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2017.

Notes to the financial statements (unaudited)

2 Exchange and non-exchange transactions

Revenue is classified as exchange or non-exchange based on the funding of the underlying activity which generates the revenue.

The split of exchange and non-exchange transactions for revenue and receivables is disclosed below.

Revenue

$million	6 months to 31 Dec 2017	6 months to 31 Dec 2016	12 months to 30 Jun 2017
Revenue from non-exchange transactions:			
Revenue from rates			
General	1,500	1,444	1,452
Targeted	193	178	178
Penalties	11	10	18
Rates remissions	(5)	(3)	(6)
Discounts	(1)	(1)	(1)
Total revenue from rates	**1,698**	**1,628**	**1,641**
Revenue from transfers			
Sale of goods and services	140	150	274
Vested assets	186	116	374
Operating grants and subsidies	144	139	272
Capital grants and subsidies	94	84	187
Consents, licences and permits	92	96	166
Fines and infringements	18	17	34
Other transfer revenue	28	43	105
Total revenue from transfers	**702**	**645**	**1,412**
Total revenue from non-exchange transactions	**2,400**	**2,273**	**3,053**
Revenue from exchange transactions:			
Water and wastewater	239	223	456
Port operations	115	106	214
Development and financial contributions	91	78	164
Finance revenue	24	8	17
Dividends received	2	5	10
Sales of goods and services	24	4	49
Other exchange revenue	108	80	166
Total revenue from exchange transactions	**603**	**504**	**1,076**
Total revenue excluding other gains	**3,003**	**2,777**	**4,129**

Receivables and prepayments

$million	As at 31 Dec 2017	As at 31 Dec 2016	As at 30 Jun 2017
Current			
Receivables from non-exchange transactions	932	893	179
Receivables from exchange transactions	193	152	166
Total current receivables and prepayments	**1,125**	**1,045**	**345**
Non-current			
Receivables from non-exchange transactions	3	8	3
Receivables from exchange transactions	6	22	6
Total non-current receivables and prepayments	**9**	**30**	**9**

Notes to the financial statements (unaudited)

3 Net other gains and losses

$million	6 months to 31 Dec 2017	6 months to 31 Dec 2016	12 months to 30 Jun 2017
Net gains on change in fair value of derivative financial instruments	46	331	237
Net increase in fair value of investment property	-	-	61
Net increase in financial instruments designated at fair value through surplus/(deficit)	4	9	16
Net foreign exchange (losses)/gains recognised in surplus/(deficit) on financial instruments held at amortised cost	(146)	32	(13)
Impairment of property, plant and equipment and intangible assets	(4)	-	(12)
Impairment of investment in subsidiaries, associates and joint ventures	-	(1)	(6)
Net (losses)/gains on disposal of property, plant and equipment and intangible assets	(4)	2	(2)
Total net other gains/(losses)	**(104)**	**373**	**281**

4 Derivative financial instruments

The Group has entered into derivative financial instrument contracts to hedge exposure to fluctuations in interest and foreign exchange rates in accordance with approved financial risk management policies.

$million	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	As at 31 Dec 2017		As at 31 Dec 2016		As at 30 Jun 2017	
Derivative assets						
Interest rate swaps						
Cash flow hedge	15	-	15	1	15	-
Fair value through surplus or deficit	2,125	44	2,565	57	2,275	53
Forward foreign currency contracts						
Cash flow hedge	39	4	43	1	45	1
Fair value through surplus or deficit	20	-	31	1	-	-
Cross currency interest rate swaps						
Fair value through surplus or deficit	1,992	223	796	124	1,629	110
Basis swaps						
Fair value through surplus or deficit	1,216	8	170	-	1,216	6
Forward rate agreements (on basis swaps)						
Fair value through surplus or deficit	749	-	-	-	-	-
Total derivative assets	**6,156**	**279**	**3,620**	**184**	**5,180**	**170**
Derivative liabilities						
Interest rate swaps						
Cash flow hedge	165	8	155	8	170	8
Fair value through surplus or deficit	8,884	851	8,357	681	8,704	751
Forward foreign currency contracts						
Cash flow hedge	17	1	53	2	52	5
Fair value through surplus or deficit	144	4	3	-	25	1
Cross currency interest rate swaps						
Fair value through surplus or deficit	1,707	65	1,103	92	1,176	104
Forward rate agreements (on basis swaps)						
Fair value through surplus or deficit	840	1	-	-	672	-
Interest rate options						
Fair value through surplus or deficit	50	3	50	3	50	3
Total derivative liabilities	**11,807**	**933**	**9,721**	**786**	**10,849**	**872**

Notes to the financial statements (unaudited)

5 Property, plant and equipment

$million	6 months to 31 Dec 2017	6 months to 31 Dec 2016	12 months to 30 Jun 2017
Additions	881	779	1,841
Net disposals and transfers to non-current assets held-for-sale (Note 6)	(298)	(37)	(337)
Capital commitments	891	1,290	1,092
Share of capital commitments from joint ventures	135	-	-

At 30 June 2017, all capital commitments in respect of the City Rail Link (CRL) project were recorded by Auckland Transport. Following the establishment of City Rail Link Limited (CRLL) these capital contracts were novated from Auckland Transport, and the Group now recognising its 50% share of capital commitments.

There have been no other material changes in fair value for property, plant and equipment between 30 June 2017 and 31 December 2017.

6 Investment in other entities

Effective 1 July 2017, the council recognised 50% of CRL assets that were transferred to CRLL as an investment in a joint venture. As at 31 December 2017, the council's investment in CRLL amounted to $260 million which includes the half year funding received by CRLL from the council of $44 million. The council has received the Crown's reimbursement of 50% of the CRL assets of $218 million (previously classified under "Non-current assets held for sale") and finance charges of $14.5 million in December 2017.

There have been no other material changes in the Group's investments in associates and joint arrangements, listed in Note F3 of the annual report 2016/2017 (volume 3), during the six months to 31 December 2017.

7 Net tangible assets

Net tangible assets per $1,000 of NZX listed bonds at 31 December 2017 is $36,051 (31 December 2016: $25,466, 30 June 2017: $26,026).

8 Provisions

The weathertightness provision has increased from $265 million at 30 June 2017 to $314 million at 31 December 2017. The majority of this increase relates to revised cost estimates to repair multi-unit buildings.

There have been no other material changes in provisions between 30 June 2017 and 31 December 2017.

9 Contingencies

The council is a shareholder and guarantor of the Local Government Funding Agency (LGFA). During the six months ended 31 December 2017, the Group's cross-guarantee on LGFA's other borrowings remain unchanged at $5.5 billion. The Group considers the risk of the LGFA defaulting on repayment of interest or capital to be very low.

Carter Holt Harvey (CHH)
The High Court heard the councils' application to strike out the CHH claim against them in September 2017. In January 2018 the High Court decision was released which did not strike out the claims, however there were 28 buildings (one in Auckland) that were struck out due to the 10-year long-stop limitation. At present, there is still insufficient information to conclude on potential liability and claim quantum, if any.

There have been no other material changes in contingencies between 30 June 2017 and 31 December 2017.

Notes to the financial statements (unaudited)

10 Related parties

There have been no significant related party transactions that were not on an arm's length basis between 1 July 2017 and 31 December 2017.

11 Reconciliation of surplus/(deficit) after income tax to net cash inflow from operating activities

$million	6 months to 31 Dec 2017	6 months to 31 Dec 2016	12 months to 30 Jun 2017
Surplus/(deficit) after income tax	**976**	**1,336**	**640**
Add/(less) non-cash items:			
Depreciation and amortisation	423	430	874
Vested assets	(186)	(116)	(374)
Net change in fair value of financial instruments	96	(363)	(240)
Net (increase)/decrease in fair value of investment property	-	-	(61)
Time value adjustments	4	7	46
Impairment of property, plant and equipment, receivables and other assets	9	2	28
Net (gain)/loss on disposal of property, plant and equipment and intangible assets	5	(2)	2
Share of surplus in associates and jointly-controlled entities (net of dividends received)	(13)	(8)	(22)
Other non-cash revenue	-	(4)	(8)
Less items classified as investing or financing activities	**-**	**(9)**	**2**
Add/(less) movements in working capital items	**(676)**	**(734)**	**5**
Net cash inflow from operating activities	**638**	**539**	**892**

12 Treasury management

$million	As at 31 Dec 2017	As at 31 Dec 2016	As at 30 Jun 2017
Borrowings	9,017	7,760	8,300
Add bank overdraft	3	1	6
Less cash and cash equivalents	(774)	(222)	(337)
Total borrowings and bank overdraft less cash and cash equivalents	**8,246**	**7,539**	**7,969**

The following table demonstrates the Group's debt maturity profile.

Debt Maturity	As at 31 Dec 2017	As at 31 Dec 2016	As at 30 Jun 2017
< 3 years	32%	38%	36%
3-6 years	16%	20%	20%
6-10 years	44%	28%	34%
> 10 years	8%	14%	10%
Total	**100%**	**100%**	**100%**

To provide certainty of future interest payments, the Group has entered into both medium and long term interest rate swaps.

There were no defaults or breaches on any borrowing arrangement during the period (31 December 2016: nil; 30 June 2017: nil).

Notes to the financial statements (unaudited)

13 Events after the reporting period

There were no material events after the reporting period that would require adjustment or disclosure for the Group.

Independent Reviewer's Report

To the readers of Auckland Council Group's Interim Financial Statements for the six months ended 31 December 2017

I am the auditor of Auckland Council and its subsidiaries (together, the Auckland Council Group). I have used my staff and appointed auditors and their staff to carry out a review of the Auckland Council Group's interim financial statements for the six months ended 31 December 2017.

I have reviewed the interim financial statements of the Auckland Council Group on pages 5 to 14 that comprise the statement of financial position as at 31 December 2017, the statement of comprehensive revenue and expenditure, statement of changes in equity and statement of cash flows for the six months ended on that date, and the notes to the interim financial statements that include the accounting policies and other explanatory information.

Conclusion

Based on my review, which is not an audit, nothing has come to my attention that causes me to believe that the Auckland Council Group's interim financial statements do not:

- comply with generally accepted accounting practice in New Zealand in accordance with PBE IAS 34: *Interim Financial Reporting*; or
- present fairly, in all material respects:
  - Auckland Council Group's financial position as at 31 December 2017; and
  - the results of its operations and cash flows for the six months ended on that date.

My review was completed on 28 February 2018. This is the date at which my conclusion is expressed.

The Council's responsibilities

The Council is responsible for preparing interim financial statements in accordance with New Zealand law and generally accepted accounting practice, including PBE IAS 34: *Interim Financial Reporting*, which present fairly the financial position of the Auckland Council Group as at 31 December 2017 and the results of its operations and cash flows for the six months ended on that date.

The Council is also responsible for such internal control as it determines is necessary to enable it to prepare interim financial statements that are free from material misstatement, whether due to fraud or error.

My responsibilities as reviewer

I am responsible for reviewing the interim financial statements and providing an independent report to you based on the procedures performed by my staff and appointed auditors and their staff.

I carried out the review in accordance with NZ SRE 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the External Reporting Board, which requires me to conclude whether anything has come to my attention that causes me to believe that the interim financial statements, taken as a whole, have not been prepared in all material respects, in accordance with generally accepted accounting practice in New Zealand.

I carried out my review in accordance with the ethical requirements of the Auditor-General that are relevant to the audit of financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. My work was limited primarily to enquiries of Auckland Council and Auckland Council Group's personnel responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit, and thus a review provides less assurance than an audit. I have not performed an audit and, accordingly, I do not express an audit opinion. Also, I did not evaluate the security and controls over the electronic publication of the interim financial statements.

Independence

When carrying out this review, my staff, and appointed auditors and their staff followed the Auditor-General's independence requirements, which incorporate the independence requirements of the External Reporting Board.

As an Officer of Parliament, I am constitutionally and operationally independent of the Auckland Council and the Auckland Council Group.

In addition to this review, I and my staff or appointed auditors and their staff have carried out the following engagements:

- the audit of the Auckland Council and the Auckland Council's Group's financial statements, activity statements, other information and local board reports contained in its annual report for the year ended 30 June 2017;
- an assurance engagement in respect of information provided by the Auckland Council and Auckland Council Group as required by the terms of its foreign borrowings programme;
- a limited assurance engagement in respect to the Auckland Council's Debenture Trust Deed and Master Trust Deed reporting certificates;
- a review of service performance audit, as required by s104 of the Auckland Council legislation, on the Council's work to provide customer-centred online services; and

- other engagements for Watercare Services Limited in the areas of taxation services, probity, cyber and security risk advisory services, which are compatible with those independence requirements.

Other than these engagements, and in exercising my functions and powers under the Public Audit Act 2001 as the auditor of public entities, I have no relationship with, or interests in the Auckland Council or any of its subsidiaries.

Greg Schollum
Deputy Auditor-General
Wellington, New Zealand

Summary of Waivers Granted by NZX

NZX Limited (NZX) granted and published a waiver dated 15 March 2016 in respect of Auckland Council's (Council) issue of $250 million of fixed rate bonds (AKC090 Bonds). A further waiver in respect of the AKC090 Bonds was granted by NZX on 29 September 2016.

Listing Rule 5.2.3

Listing Rule 5.2.3, as modified by a ruling by NZX dated 29 September 2015, requires a class of debt securities to be held by at least 100 members of the public holding at least 25% of the number of securities of that class issued, with each member of the public holding at least a Minimum Holding (as defined in the NZX Main Board / Debt Market Listing Rules).

In March 2016, NZX granted Council a waiver from Listing Rule 5.2.3 with respect to the AKC090 Bonds to allow Council to have fewer than 100 bondholders who are members of the public holding at least 25% of the AKC090 Bonds on issue for a period of six months from the quotation date of its initial offer of new bonds. In September 2016, NZX granted a further waiver from Listing Rule 5.2.3 with respect to the AKC090 Bonds for a period of twelve months from 30 September 2016.

NZX granted the further waiver in respect of the AKC090 Bonds from Listing Rule 5.2.3 on the following conditions:

- Council must clearly and prominently disclose the waiver, its conditions and its implications in its half-year report and its annual report, for the period that the waiver is relied upon;
- Council must notify NZX as soon as practicable if there is a material reduction to the total number of members of the public holding at least a Minimum Holding of the AKC090 Bonds and/or the percentage of the AKC090 Bonds held by members of the public holding at least a Minimum Holding;
- for the period of the waiver, the AKC090s must be held by at least 80 members of the public holding at least 15% of the AKC090 Bonds on issue, with each member of the public holding at least a Minimum Holding; and
- Council must provide NZX with a written update of the total number of members of the public holding at least a Minimum Holding of the AKC090 Bonds and the percentage of the AKC090 Bonds held by members of the public holding at least a Minimum Holding following AKC's financial year end. The update is to be provided to NZX within ten business days of the end of the financial year.

For details of other waivers, please refer to the 30 June 2017 annual report.

Other exchange listings

In addition to NZX, Auckland Council Group also has bonds listed on the Singapore Exchange (SGX) and SIX Swiss Exchange.

The SIX Swiss exchange requires a summary of main differences between IFRS and PBE Accounting Standards to be provided. The key differences are highlighted on the following pages.

Main differences between IFRS and PBE Accounting Standards

Introduction
Under the New Zealand Accounting Standards Framework, public sector public benefit entities (PBEs) apply PBE Accounting Standards. The New Zealand Accounting Standards Framework defines public benefit entities (PBEs) as reporting entities "whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders". Many public sector entities are classified as PBEs. Auckland Council Group (the Group) is classified as a public sector PBE for financial reporting purposes and therefore the financial statements of the Group have been prepared in accordance with PBE Accounting Standards.

The Group has transitioned to the PBE Accounting Standards for periods beginning on or after 1 July 2014 with comparative information restated as if the Group had always applied PBE Accounting Standards. Prior to the transition, the financial statements of the Group were prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (IFRS) as applicable to PBEs (NZ IFRS PBE). NZ IFRS PBE were based on IRFS with modifications and exemptions from certain requirements of IFRS.

The PBE Accounting Standards are primarily based on International Public Sector Accounting Standards (IPSAS). IPSAS are based on IFRS but adapted to a public sector context where appropriate by using more appropriate terminology and additional explanation where required. For example, IPSAS introduces the concept of service potential in addition to economic benefits in the asset recognition rules, and provides more public sector specific guidance where appropriate. This is in contrast with IFRS that are written for the for-profit sector with capital markets in mind.

Set out below are the key differences in recognition and measurement between PBE Accounting Standards applicable to the Group and IFRS (applicable to annual periods beginning on or after 1 July 2017). Differences that impact only on presentation and disclosure have not been identified.

PBE Accounting Standards with comparable IFRS equivalent

	PBE	IFRS	Impact
Formation of Auckland Council Group	PBE IFRS 3 *Business Combinations* contains a scope exemption for business combinations arising from local authority reorganisations. This scope exemption is carried forward from NZ IFRS 3 (PBE) *Business Combinations*, the standard that was applicable to the Group at the time it was formed on 1 November 2010 as a result of the amalgamation of eight predecessor Auckland local authorities. Under the exemption, all assets and liabilities of the predecessor local authorities were recognised by the Group using the predecessor values of those assets and liabilities. The initial value at which those assets and liabilities were recognised by the Group is deemed to be their cost for accounting purposes.	Without the scope exemption, the dissolution of the predecessor local authorities into the Group would have been accounted for as a business combination under IFRS 3 applying the acquisition method. Under the acquisition method, an acquirer would have been identified and all of the identifiable assets and liabilities of the acquired predecessor local authorities assumed by the acquirer would have been recognised at fair value as at the date of acquisition.	The impact of the above accounting treatment of the 2010 local authority reorganisation is that the carrying value of the assets and liabilities received as part of the reorganisation were not re-measured to fair value and no additional assets and liabilities such as goodwill and contingent liabilities were recognised as would have been required if the transaction is accounted for as a business combination under IFRS 3.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards with comparable IFRS equivalent (continued)

	PBE	IFRS	Impact
Property, Plant and Equipment	In accordance with PBE IPSAS 17 *Property, Plant and Equipment*, PBEs are required to account for revaluation increases and decreases on an asset class basis rather than on an asset by asset basis.	IFRS requires asset revaluation decreases to be recognised in operating surplus except to the extent there is sufficient asset revaluation reserves surplus relating to the same asset.	This difference could result in lower operating results under IFRS where there is a decrease in the carrying value of an asset. This is because, to the extent that there is sufficient revaluation surplus in respect of the same asset class (as opposed to the same asset), the Group recognises a revaluation decrease in asset revaluation reserves.
Borrowing Costs	PBE IPSAS 5 *Borrowing Costs* permits PBEs to either capitalise or expense borrowing costs incurred in relation to qualifying assets. A qualifying asset is defined in PBE IPSAS 5 "as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale". The Group's accounting policy is to expense all borrowing costs. As a consequence, borrowing costs on qualifying assets are expensed and are not built into the original costs or revaluations of physical assets.	IAS 23 *Borrowing Costs* requires capitalisation of borrowing costs incurred in relation to a qualifying asset. The definition of a qualifying asset is identical to that definition in PBE IPSAS 5.	This difference between the Group's accounting policy to expense all borrowing costs under PBE IPSAS 5 and the IAS 23 requirement to capitalise all borrowing costs results in the Group's property, plant and equipment value, and subsequent depreciation expense, being lower than those would be under IFRS. In addition, there is higher interest expense in the periods in which construction costs on qualifying assets are incurred.
Impairment of Assets	To determine whether a non-financial asset is impaired, PBEs apply PBE IPSAS 21 *Impairment of Non-Cash-Generating Assets* or PBE IPSAS 26 *Impairment of Cash-Generating Assets*, as appropriate. PBEs are therefore required to designate non-financial assets as either cash-generating or non-cash-generating. Cash-generating assets are those that are held with the primary objective of generating a commercial return. Non-cash-generating assets are assets other than cash-generating assets. The PBE Accounting Standards require the value in use of non-cash-generating assets to be determined as the present value of the remaining service potential using one of the following: the depreciated replacement cost approach; the restoration cost approach; or the service units approach. Under the PBE Accounting Standards property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment.	IFRS does not provide specific guidance for the impairment of non-cash-generating assets. The value in use of an asset or a cash generating unit is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The guidance in IAS 36 *Impairment of Assets* applies to all property, plant and equipment, including those measured at fair value.	Assets whose future economic benefits are not primarily dependent on the asset's ability to generate cash and which might not be impaired under PBE Accounting Standards might be impaired under IFRS due to limited generation of cash flows. The Group asset values may therefore be higher than under IFRS because some impairment may not be required under PBE Accounting Standards when impairment would be recognised under IFRS. The use of different methods may result in differences in the amount of value in use. The fact that property, plant and equipment measured at fair value is not required to be reviewed and tested for impairment under the PBE Accounting Standards has no significant impact because these assets are subject to sufficiently regular revaluations to ensure that their carrying amount does not differ materially from fair value.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards that have no IFRS equivalent/IFRS equivalent is not comparable

	PBE	IFRS	Impact
Revenue from non-exchange transactions	The PBE Accounting Standards require revenue to be classified as revenue from exchange or non-exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Non-exchange transactions are transactions that are not exchange transactions. PBE IPSAS 23 *Revenue from Non-Exchange Transactions* deals with revenue from non-exchange transactions. The Group's non-exchange revenue includes revenue from general rates and grants and subsidies received. Fees and user charges derived from activities that are partially funded by general rates are also considered to be revenue arising from non-exchange transactions. The Group recognises an inflow of resources from a non-exchange transaction as revenue except to the extent that a liability is also recognised in respect of the same inflow. A liability is recognised when a condition is attached to the revenue that requires that revenue to be returned unless it is consumed in the specified way. As the conditions are satisfied, the liability is reduced and revenue is recognised.	IFRS does not contain a specific standard that deals with revenue from non-exchange transactions. IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* contains guidance relating to the accounting for government grants. Under IAS 20, government grants are recognised in profit or loss on a systematic basis over the periods in which the entity recognises expenses for the related costs for which the grants are intended to compensate. In the case of grants related to assets, IAS 20 results in setting up the grant as deferred income or deducting it from the carrying amount of the asset.	Compared to IAS 20, the Group's accounting policy may lead to earlier recognition of revenue from non-exchange transactions; and may also result in differences in asset values in relation to grants related to assets. As a result of adopting PBE IPSAS 23, the timing of recognising the group's rates revenue has changed to recognise annual general rates revenue as at the date of issuing the rating notices for the annual general rate charge resulting in the entire rates revenue being recognised in the interim financial statements of the group. This is contrary to the group's previous accounting policy under NZ IFRS PBE to recognise general rates revenue throughout the annual period. The impact of this difference increases the reported general rates revenue and net assets in the interim financial statements of the group however it has minimal impact on the recognition of revenue and net assets reported in the group's annual financial statements.
Service Concession Arrangements (also known as Public Private Partnership Arrangements)	PBE IPSAS 32 *Service Concession Arrangements* deals with the accounting for service concession arrangements from the grantor's perspective. Service concession arrangements are more commonly known as Public Private Partnership (PPP) arrangements. Broadly, service concession arrangements are arrangements between the public and private sectors whereby public services are provided by the private sector using public infrastructure (service concession asset). PBE IPSAS 32 requires the grantor (public entity) to recognise the service concession asset and a corresponding liability on its statement of financial position. The liability can be a financial or other liability or a combination of the two depending on the nature of the compensation of the operator.	IFRS contains no specific guidance addressing the accounting by the grantor (public entity) in a service concession arrangement. However IFRS contains guidance for the operator's accounting (private entity) and, prior to the adoption of PBE Accounting Standards, NZ practice has been for the grantor (public entity) to 'mirror' the accounting treatment of the private entity.	Applying IFRS to service concession arrangements would not result in a significant impact on the Group's financial position or financial performance as, in absence of specific guidance in NZ IFRS prior to the adoption of PBE Accounting Standards, NZ practice has been to 'mirror' the accounting treatment of the private entity under IFRS which is consistent with the requirements of the PBE Accounting Standards.

Main differences between IFRS and PBE Accounting Standards (continued)

PBE Accounting Standards that have no IFRS equivalent/IFRS equivalent is not comparable
The following standards provide guidance on the same topic but are not directly comparable. The comparison below identifies the key recognition and measurement differences.

	PBE	IFRS	Impact
Service Concession Arrangements (also known as Public Private Partnership Arrangements) (continued)	A financial liability is recognised if the grantor compensates the operator by the delivery of cash or another financial asset. A non-financial liability is recognised if a right is granted to the operator to charge the users of the public service related to the service concession asset (liability for unearned revenue).		
Consolidated Financial Statements	PBE IPSAS 6 *Consolidated and Separate Financial Statements* includes guidance on assessing control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and specifies the accounting treatment for interests in other entities in the separate parent financial statements.	IFRS 10 *Consolidated Financial Statements* contains guidance on assessing control based on principles similar to those in PBE IPSAS 6 and provides additional guidance to assist in the determination of control where this is difficult to assess. IAS 27 *Separate Financial Statements* specifies the accounting treatment for interests in other entities in the separate parent financial statements.	The Group does not believe that the application of IFRS 10 would result in more or fewer entities being consolidated than under PBE IPSAS 6.
Joint Arrangements	PBE IPSAS 8 *Joint Ventures* defines three types of joint ventures: jointly controlled assets, jointly controlled operations and joint ventures.	IFRS 11 *Joint Arrangements* focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures.	The Group does not believe that the application of IFRS 11 would result in a material change to the Group's results and net assets.
Fair Value Measurement	There is no specific standard in the PBE Accounting Standards, however a number of PBE Accounting Standards contain guidance on the measurement of fair value in specific context (for example PBE IPSAS 17 *Property, Plant and Equipment* and PBE IPSAS 29 *Financial Instruments: Recognition and Measurement*).	IFRS 13 *Fair Value Measurement* does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.	The application of IFRS 13 may result in differences in the measurement of certain property, plant and equipment compared to PBE IPSAS 17 and financial assets and liabilities compared to PBE IPSAS 29.
Employee Benefits	PBE IPSAS 25 *Employee Benefits* is based on IPSAS 25. IPSAS 25 is based on IAS 19 *Employee Benefits* (2004).	IAS 19 *Employee Benefits* (2011) introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits compared to IAS 19 (2004). The standard also requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year.	The Group has no defined benefit obligations and therefore there is no impact on its financial performance and financial position.

This page has been intentionally left blank

Find out more: **phone 09 301 0101**
or visit **aucklandcouncil.govt.nz/**

Auckland Council
Te Kaunihera o Tāmaki Makaurau